

Cache Logistics Trust

CWT Commodity Hub converts to multi-tenancy lease



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

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- CWT Commodity Hub conversion to multi-tenancy lease
- CWT remains a core tenant at the property, committing to 61% of the space
- New occupancy of 86% is lower than expected and we lower our estimates
- Maintain Accumulate; lower target price of \$0.91 (previously \$0.93)

What is the news?

Cache Logistics Trust announced the conversion of CWT Commodity Hub from a master lease to a multi-tenancy lease structure. The property is located at 24 Penjuru Road and was leased to CWT Pte. Limited (CWT) on a master lease. CWT continues to occupy 61% of the property after the conversion. Some of the original underlying tenants have been effectively transferred over to Cache as the landlord.

How do we view this?

The Positives

+ **Portfolio WALE by NLA has been extended from 3.4 years (as at Dec 31, 2017) to 3.5 years (as at April 12, 2018).** A longer weighted average lease expiry (WALE) is desirable, as it is an indicator of income visibility. However, the new WALE being disclosed is not comparable with the WALE from 4Q17 because the new WALE includes the effects of the recent acquisition of nine Australian properties, which was completed on Feb 15, 2018 as well as renewals done during 1Q18.

+ **No more master leases expiring in 2018.** CWT Commodity Hub is the only master lease to expire this year and there is no conversion risk remaining for 2018. The next master lease expiry in the portfolio is for Precise Two (15 Gul Way) on March 31, 2019.

The Negatives

– **Committed occupancy of 86% is slightly lower than expected.** This is lower than the JTC island-wide Warehouse occupancy of 89.1% as at 4Q 2017, albeit Cache's Singapore portfolio occupancy of 92.8% remains higher than the JTC island-wide average. Moreover, the manager had commented during previous results briefings that underlying occupancy at CWT Commodity Hub is "practically full". We were expecting a conversion with at least 90% occupancy – being comparable with the JTC island-wide average.

Maintain Accumulate; lower target price of \$0.91 (previously \$0.93)

We have lowered our FY18e/FY19e revenue assumption by 1.0%/1.1%, and DPU assumption by 1.5%/1.4%, as committed occupancy turned out slightly lower than expected. Gearing remains comfortable at 36.3% (as at 4Q17). And gearing is set to lower further, as divestment proceeds from Hi-Speed Logistics Centre (40 Alps Ave) will be used to pare down debt. (Proposed divestment was announced in January 2018.) We estimate gearing to be lowered even further to 32.4%, and new headroom of almost \$270mn (based on 45% limit) after the divestment proceeds from 40 Alps Ave is used to repay debt.

Accumulate (Maintain)

LAST CLOSE PRICE	SGD 0.840
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 0.910
TOTAL RETURN	15.5%

COMPANY DATA

BLOOMBERG CODE:	CACHE SP
O/S SHARES (MN):	1070
MARKET CAP (USD mn / SGD mn):	685 / 899
52 - WK HI/LO (SGD):	0.91 / 0.78
3M Average Daily T/O (mn):	178

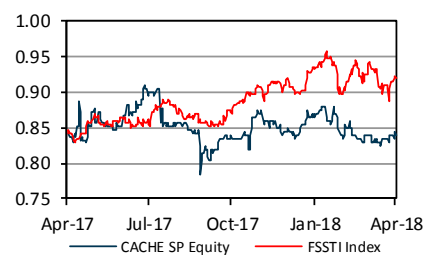
MAJOR SHAREHOLDERS (%)

EASTSPING INVESTMENTS SINGAPORE	5.0%
VANGURAD GROUP INC	2.6%
DIMENSIONAL FUND ADVISORS LP	2.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.6	(0.5)	8.4
STIRETURN	0.0	(0.6)	13.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
Gross Rev. (SGD mn)	1113	112.0	117.2	118.1
NPI (SGD mn)	88.0	87.3	91.4	92.1
Dist. Inc. (SGD mn)	66.9	64.4	65.7	65.1
P/E (x)	N.A.	34.8	16.0	16.2
P/NAV (x)	1.04	1.17	1.19	1.20
DPU, adj (cents)	7.73	6.58	6.05	5.97
Distribution Yield (%)	9.5	7.8	7.2	7.1

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 6.8%; Terminal g: 10%)

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Relative valuation

Cache Logistics Trust is fairly valued relative to logistics peers in terms of P/NAV multiple. But it has a higher than average trailing yield, which suggests that there is room for yield to compress.

Peer relative data (arranged by Mkt. Cap.)

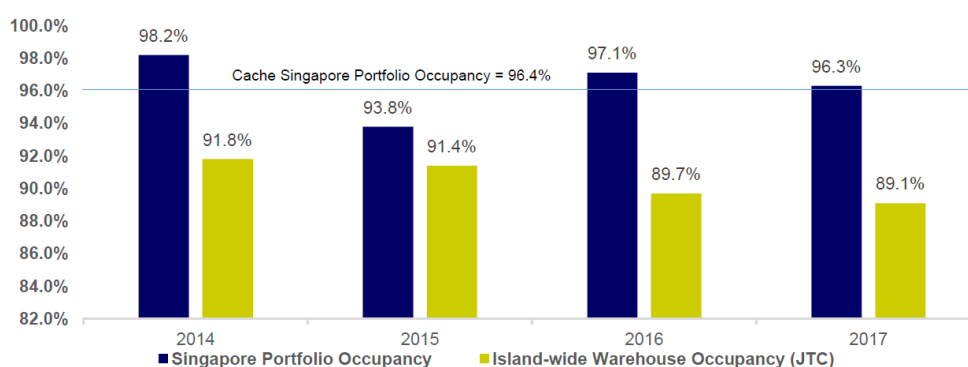
	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M trailing yield (%)	* Total Debt to Total Assets (%)
Mapletree Logistics Trust	3,884	1.270	1.21	5.9	38.4
Frasers Logistics & Industrial Trust	1,627	1.070	1.16	6.6	29.0
Cache Logistics Trust	899	0.840	1.17	7.9	36.2
Average			1.18	6.8	34.5

Source: Bloomberg (Updated: 12 April 2018), PSR

* Total Debt to Total Assets as at 31 December 2017

Appendix

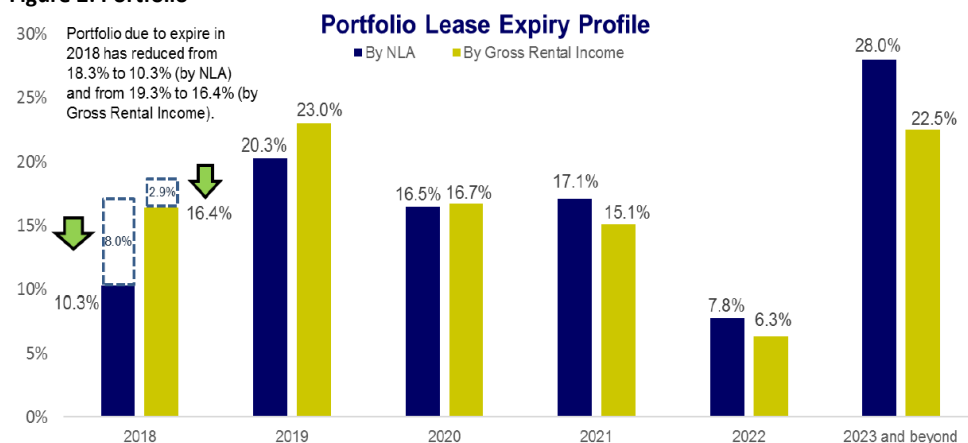
Figure 1: Historical Singapore portfolio occupancy vs. JTC island-wide



Source: Company announcement, 12 April 2018

- Cache's Singapore portfolio occupancy has consistently been higher than the JTC island-wide occupancy for Warehouse

Figure 2: Portfolio



Source: Company announcement, 12 April 2018

- Staggered lease expiry profile, with less than 23% expiry in any year by gross rental income
- Note that the chart is as at March 31 (1Q18)

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross revenue	89.7	111.3	112.0	117.2	118.1
Property expenses	(13.6)	(23.3)	(24.7)	(25.8)	(26.0)
Net property income	76.2	88.0	87.3	91.4	92.1
Net Finance (Expense)/Inc.	(14.1)	(19.5)	(18.6)	(17.8)	(18.6)
Manager's fees	(7.5)	(6.5)	(6.3)	(7.9)	(8.1)
Other items	(1.6)	(3.1)	(2.8)	(2.0)	(1.9)
Exceptional items	-	-	-	-	-
Net income	53.0	57.6	58.0	63.6	63.6
FV change, Invmnt. properties	(64.7)	(80.7)	(31.8)	-	-
Total Return Before Tax	(11.7)	(23.2)	25.2	63.6	63.6
Taxation	(0.6)	(0.8)	(1.3)	(1.4)	(1.4)
Total Return After Tax	(12.3)	(24.0)	23.9	62.2	62.2
Distribution adjustments	75.2	90.9	40.5	3.5	2.9
Income available for distribution	62.9	66.9	64.4	65.7	65.1
Portion of sales proceeds	5.1	2.4	1.6	-	-
Income distributed	68.0	69.3	66.0	65.7	65.1

Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	88.0	78.0	72.0	70.8	70.2
EPU	(1.47)	(2.67)	2.43	5.30	5.22
DPU	8.50	7.73	6.58	6.05	5.97

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Net income	53.0	57.6	58.0	63.6	63.6
Adjustments	20.0	26.3	25.2	24.5	25.2
WC changes	2.7	(1.7)	0.2	0.2	(0.4)
Cash generated from ops	75.7	82.2	83.4	88.4	88.3
Others	(0.6)	(0.9)	(1.0)	(1.4)	(1.4)
Cashflow from ops	75.1	81.3	82.4	87.0	86.9
CFI					
CAPEX, net	(80.5)	(7.2)	22.5	(0.1)	(0.1)
Purchase of Inv. Propty., net	(183)	-	(25.4)	(200.0)	-
Others	0.1	0.0	0.0	69.0	-
Cashflow from investments	(263)	(7.2)	(2.9)	(131.1)	(0.1)
CFF					
Share issuance, net	100.0	-	102.7	-	-
Loans, net of repayments	173.1	13.0	(95.9)	51.0	10.0
Dividends	(74.2)	(63.1)	(65.6)	(65.9)	(64.6)
Others	(14.2)	(18.5)	(19.6)	79.9	(24.1)
Cashflow from financing	184.7	(68.7)	(78.4)	65.0	(78.7)
Net change in cash	(3.2)	5.5	1.1	20.9	8.1
Effects of exchange rates	(0.0)	0.0	0.3	-	-
Ending cash	8.1	13.6	15.0	35.9	44.0

Source: Company, Phillip Securities Research (Singapore) Estimates

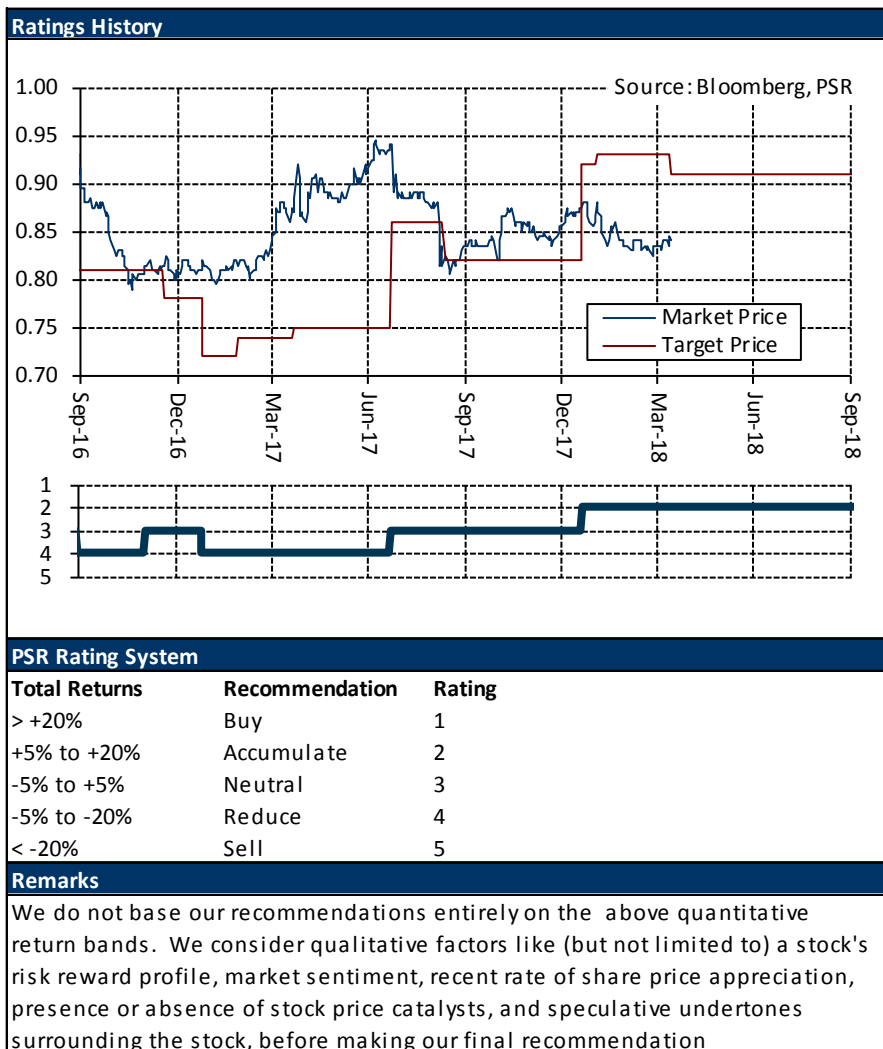
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	1,308	1,211	1,138	1,338	1,338
Inv. Propty. Under Devmnt.	-	-	-	-	-
PPE	3.0	3.1	2.3	1.6	1.1
Others	1.8	0.0	-	-	-
Total non-current assets	1,313	1,214	1,140	1,340	1,339
Cash	8.1	13.6	15.0	35.9	44.0
Trade receivables	5.0	5.4	4.8	5.7	5.5
Others	0.4	25.3	69.0	0.0	0.0
Total current assets	13.4	44.2	88.8	41.6	49.5
Total Assets	1,326	1,258	1,229	1,381	1,389
LIABILITIES					
Trade payables	14.3	13.9	15.2	16.4	15.7
Borrowings	8.3	4.6	125.0	56.0	56.0
Others	-	0.02	1.07	1.07	1.07
Total current liabilities	22.6	18.5	141.2	73.4	72.8
Borrowings	515	534	320	440	450
Others	2.1	4.4	2.4	2.4	2.4
Total non-current liabilities	517	539	322	442	452
Total Liabilities	540	557	463	515	525
Net assets	787	701	766	866	864
Represented by:					
Unitholders' funds	787	701	766	763	761
Perp. Securities holders	-	-	-	103	103

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.A.	N.A.	34.8	16.0	16.2
P/NAV (x)	1.00	1.04	1.17	1.19	1.20
P/DPU (x)	10.39	10.51	12.84	13.97	14.15
Distribution Yield (%)	9.62	9.51	7.79	7.16	7.07
NPI yield (%)	6.47	6.99	7.43	7.38	6.89
Growth & Margins (%)					
Growth					
Revenue	8.3%	24.0%	0.6%	4.7%	0.8%
Net property income (NPI)	-2.4%	15.6%	-0.8%	4.7%	0.8%
Distributable income	-6.0%	6.4%	-3.8%	2.0%	-0.9%
DPU	-	-9.1%	-14.8%	-8.1%	-1.2%
Margins					
NPI margin	84.9%	79.1%	78.0%	78.0%	78.0%
Key Ratios					
Net Debt or (Net Cash)	515.4	525.3	429.7	459.8	461.7
Aggregate Leverage (%)	39.5%	42.8%	36.2%	35.9%	36.4%



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